LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6866
BILL NUMBER: SB 352

NOTE PREPARED: Jan 1, 2010
BILL AMENDED:

SUBJECT: Employer Credits for Rehiring Laid off Workers.

FIRST AUTHOR: Sen. Simpson
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides for a tax credit for a taxpayer that employs an individual laid off from a place of employment located in Indiana. It also provides for a credit to an employer's unemployment insurance experience account for an employer that reemploys an employee laid off by the employer.

Effective Date: January 1, 2010 (retroactive); July 1, 2010.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. Also, the amount of tax credits allowed under this bill cannot exceed $7 M for a state fiscal year. The bill specifies that if the amount of credits claimed does exceed $7 M, then the amount of the tax credit must be prorated among all taxpayers that qualify for the tax credit. The bill's requirements represent an additional workload on the DOR, and existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

Explanation of State Revenues: *Income Tax Credit for Rehiring Laid Off Workers* - This bill provides a new tax credit for a taxpayer that employs a worker that has been laid off and is receiving unemployment insurance, and will reduce revenue to the General Fund by an indeterminable amount for FY 2011 and FY 2012. However, the amount of tax credits allowed for all taxpayers may not exceed $7 M for a state fiscal year. Also, the bill provides that the Commissioner of the Department of Workforce Development will transfer the lesser of either the amount of tax credits claimed under this bill or $7 M from the Special Employment and Training Services Fund (Unemployment Trust Fund) to the Treasurer of State to be deposited in the General Fund on August 1, 2011, and August 1, 2012.

Unemployment Insurance Fund Experience Credit: The bill gives a credit against an employer's unemployment insurance experience account during FY 2011 and FY 2012 if they rehire a laid off employee. The credit is the difference of 26 minus the number of weeks the person has received benefits times the person's weekly unemployment benefit. The average weekly benefit is about $306.99 and the average duration of benefits is about 15.8 weeks. There were approximately 143,300 claims per week in CY 2009. The bill could reduce the benefits paid from the Unemployment Trust Fund if employers rehire people receiving unemployment insurance.

For each 1% of individuals that are rehired, the reduction in benefit payout would be about $4.4 M per year. The bill could increase an employer's experience account rating, which could reduce their tax rate. The bill would also increase an employer's experience rating. The credit to employers would be about the same as the possible saving in benefits of about $4.4 M for each 1% that are rehired. Employers may be more likely to take advantage of the credit if they can reduce their tax burden by moving to a lower tax rate.

<u>*Background Information*</u> - *Income Tax Credit*: This bill provides a new tax credit for taxable years 2010 and 2011. The tax credit is equal to the lesser of 10% of the wages paid to a qualified employee during the taxable year or $7,000, and may be applied against Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities. If 1,000 individuals (a little less than 1% of the claims per week in CY 2009) are hired by employers that are eligible for the credit and they claim $7,000 for each employee, then revenue would be reduced by $7 M. If the amount of the tax credit exceeds a taxpayer's liability for a taxable year, then the excess may be carried forward to succeeding taxable years. The tax credit may not be refunded or carried back.

Revenue from the AGI tax, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund.

Special Employment and Training Services Fund: The bill provides that the Commissioner of the Department of Workforce Development will transfer the lesser of either the amount of tax credits claimed under this bill, or $7 M from the Special Employment and Training Services Fund to the Treasurer of State to be deposited in the General Fund on August 1, 2011, and August 1, 2012. The ending balance for this fund was approximately $7 M for FY 2009.

Unemployment Insurance Benefit Fund: For the first 11 months of CY 2009 the Unemployment Insurance Benefit Fund paid about $1.75 B in benefits and collected about $514.3 M in revenue. The balance in the fund was about minus $1.36 B.

Employer Experience Rating: An employer's experience rating is determined by dividing their Unemployment Trust Fund balance by their taxable payroll. There are approximately 19,728 employers with a negative experience rating.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u>

State Agencies Affected: DOR; DWD.

Local Agencies Affected:

Information Sources: U.S. Department of Labor, Division of Fiscal and Actuarial Services, *Unemployment Insurance Data Summary, Indiana*, Third Quarter, 2009; *Indiana Handbook of Taxes, Revenues, and Appropriations,* FY 2009.

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